



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
CLAY COUNTY
SHERIFF'S SETTLEMENT – 1997 TAXES,
SHERIFF'S SETTLEMENT – 1997 UNMINED COAL TAXES,
AND
SHERIFF'S SETTLEMENT – 1989, 1990, 1991, 1992, AND 1993
OMITTED UNMINED COAL TAXES**

November 19, 1998

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**



Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable James Garrison, Clay County Judge/Executive
Honorable Edward Jordon, Clay County Sheriff
Members of the Clay County Fiscal Court

The enclosed report prepared by Donna Bouvier, Certified Public Accountant, presents the Clay County Sheriff's Settlement – 1998 Taxes, the 1997 Unmined Coal Taxes, and the 1989, 1990, 1991, 1992, and 1993 Omitted Unmined Coal Taxes.

We engaged Donna Bouvier, CPA, to perform the financial audit of this statement. We worked closely with the firm during our report review process; the resulting audit comports with our reporting format. As part of the audit, Donna Bouvier, CPA, evaluated the Clay County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

CLAY COUNTY
SHERIFF'S SETTLEMENT - 1997 TAXES,
SHERIFF'S SETTLEMENT - 1997 UNMINED COAL TAXES,
AND
SHERIFF'S SETTLEMENT - 1989, 1990 1991, 1992, AND 1993
OMITTED UNMINED COAL TAXES,

November 19, 1998

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To the People of Kentucky
Honorable Paul E. Patton, Governor
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Honorable James Garrison, County Judge/Executive
Honorable Edd Jordan, Sheriff
Members of the Clay County Fiscal Court

Independent Auditor's Report

I have audited the Clay County Sheriff's Settlement-1997 Tax Collection, 1997 Unmined Coal Taxes, and 1989, 1990, 1991, 1992, and 1993 Omitted Unmined Coal Taxes as of November 19, 1998. These tax settlements are the responsibility of the Clay County Sheriff. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted government auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In my opinion, the accompanying financial statements referred to above present fairly in all material respects, the Clay County Sheriff's taxes charged, credited, and paid as of November 19, 1998, in conformity with the basis of accounting described in the preceding paragraph.

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Members of the Clay County Fiscal Court
(Continued)

Based on the results of my audit, I have presented a comments and recommendations, included herein, which discusses the following areas of noncompliance:

- The Sheriff Should Require Depository Institutions To Pledge Additional Securities Of \$329,095 As Collateral To Protect Deposits.
- The Sheriff Should Have A Written Agreement To Protect Deposits.

In accordance with Government Auditing Standards, I have also issued a report dated October 29, 1999, on my consideration of the Clay County Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Donna Bouvier
Certified Public Accountant

October 29, 1999

CLAY COUNTY
EDD JORDAN, SHERIFF
SHERIFF'S SETTLEMENT - 1997 TAXES

November 19, 1998

		Special			
	County	Taxing		School	State
	<u>Taxes</u>	<u>Districts</u>		<u>Taxes</u>	<u>Taxes</u>
<u>Charges</u>					
Real Estate	\$ 182,770	\$ 232,845		\$ 1,104,134	\$ 393,108
Tangible Personal Property	12,867	17,890		77,730	50,745
Intangible Personal Property	-	-		-	27,627
Fire Protection	3,788	-		-	-
Franchise Corporation	33,349	45,145		201,623	-
Additional Billings	684	853		4,164	1,567
Increased Through Erroneous Penalties	3,243	4,090		19,326	7,015
Adjusted to Sheriff's Receipt	1,822	2,499		11,764	4,194
Gross Chargeable to Sheriff	<u>\$ 238,523</u>	<u>\$ 303,322</u>		<u>\$ 1,418,741</u>	<u>\$ 484,256</u>
<u>Credits</u>					
Discounts	\$ 2,470	\$ 3,111		\$ 14,618	\$ 6,076
Exonerations	2,979	3,796		17,999	6,587
Delinquents:					
Real Estate	10,634	13,547		64,242	22,871
Tangible Personal Property	29	45		195	177
Intangible Personal Property	-	-		-	29
Delinquent Real Estate 96 Supplemental	235	296		1,433	532
Total Credits	<u>\$ 16,347</u>	<u>\$ 20,795</u>		<u>\$ 98,487</u>	<u>\$ 36,272</u>
Net Tax Yield	\$ 222,176	\$ 282,527		\$ 1,320,254	\$ 447,984
Less: Commissions*	9,730	11,826		52,810	19,327
Net Taxes Due	<u>\$ 212,446</u>	<u>\$ 270,701</u>		<u>\$ 1,267,444</u>	<u>\$ 428,657</u>

CLAY COUNTY
EDD JORDAN, SHERIFF
SHERIFF'S SETTLEMENT - 1997 TAXES
November 19, 1998
(Continued)

		Special		
	County	Taxing	School	State
	<u>Taxes</u>	<u>Districts</u>	<u>Taxes</u>	<u>Taxes</u>
Taxes Paid	\$ 212,293	\$ 270,782	\$ 1,267,328	\$ 428,590
Refunds (Current and Prior Year)	17	23	105	37
Due Districts or (Refunds Due Sheriff)				
as of Completion of Fieldwork	\$ 136	\$ (104)	\$ 11	\$ 30
		**		

* Commissions:
10.00% on \$ 10,000
4.25% on \$ 869,965
4.00% on \$1,392,976

** Special Taxing Districts:
Library District \$ (7)
Health District 3
Agriculture District (3)
Conservation District (97)

Due Districts or (Refund Due Sheriff) \$(104)
===

The accompanying notes are an integral part of the financial statements.

CLAY COUNTY
EDD JORDAN, SHERIFF
SHERIFF'S SETTLEMENT - 1997 UNMINED COAL TAXES

November 19, 1998

	County	Special	School	State
	<u>Taxes</u>	<u>Taxing</u>	<u>Taxes</u>	<u>Taxes</u>
		<u>Districts</u>		
<u>Charges</u>				
Sheriff's Official Receipt for Unmined Coal	\$ 897	\$ 1,142	\$ 5,418	\$ 1,929
Gross Chargeable to Sheriff	\$ 897	\$ 1,142	\$ 5,418	\$ 1,929
<u>Credits</u>				
Discount	\$ 10	\$ 13	\$ 63	\$ 23
Exonerations	25	31	149	53
Delinquents	340	433	2,054	731
Total Credits	\$ 375	\$ 477	\$ 2,266	\$ 807
Net Taxes Yield	\$ 522	\$ 665	\$ 3,152	\$ 1,122
Less: Commissions*	22	28	126	48
Net Taxes Due	\$ 500	\$ 637	\$ 3,026	\$ 1,074
Taxes Paid	500	637	3,026	1,074
Refunds Due Sheriff as of Completion of Fieldwork	\$ -	\$ -	\$ -	\$ -

* Commissions:
4.25% on \$2,152
4.00% on \$3,309

The accompanying notes are an integral part of the financial statements.

CLAY COUNTY
 EDD JORDAN, SHERIFF
 SHERIFF'S SETTLEMENT - 1989, 1990, 1991, 1992, AND
1993 OMITTED UNMINED COAL TAXES

November 18, 1998

	County	Special		School		State
	<u>Taxes</u>	<u>Taxing</u>		<u>Taxes</u>		<u>Taxes</u>
		<u>Districts</u>				
<u>Charges</u>						
Sheriff's Official Receipt						
for Unmined Coal	\$ 1,852	\$ 1,950		\$ 8,044		\$ 4,446
Additional Taxes	90	102		467		224
Penalties	275	279		1,091		648
Gross Chargeable to Sheriff	\$ 2,217	\$ 2,331		\$ 9,602		\$ 5,318
<u>Credits</u>						
Exonerations	\$ 570	\$ 624		\$ 2,692		\$ 1,402
Delinquents	445	471		1,965		1,071
Total Credits	\$ 1,015	\$ 1,095		\$ 4,657		\$ 2,473
Net Taxes Yield	\$ 1,202	\$ 1,236		\$ 4,945		\$ 2,845
Less: Commissions*	51	52		198		121
Net Taxes Due	\$ 1,151	\$ 1,184		\$ 4,747		\$ 2,724
Taxes Paid	1,151	1,184		4,747		2,724
Due Districts or (Refund Due Sheriff)						
as of Completion of Fieldwork	\$ -	\$ -		\$ -		\$ -

* Commissions:
 4.25% on \$5,029
 4.00% on \$5,199

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

CLAY COUNTY
NOTES TO THE FINANCIAL STATEMENTS

November 19, 1998

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is utilized to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B) Basis of Accounting

The financial statements have been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C) Cash and Investments

At the direction of the fiscal court, Kentucky Revised Statute 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CLAY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
November 19, 1998
(Continued)

NOTE 2: DEPOSITS

The Sheriff maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by a collateral security agreement between the depositor and the depository institution. This collateral security agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff met the requirements stated above; however, as of February 10, 1998, the uncollateralized amount on deposit was \$329,095. The pledged collateral and FDIC insurance did not equal or exceed the amount on deposit.

NOTE 3: PROPERTY TAXES

The real and personal property tax assessments are levied as of January 1, 1997. Property taxes were billed to finance governmental services for the year ended June 30, 1998. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 1998, through October 23, 1998.

1997 Unmined Coal Taxes

The tangible property tax assessments are levied as of January 1, 1997. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 1997, through October 23, 1998.

Prior Years Omitted Unmined Coal Taxes

The tangible property tax assessments are levied as of January 1. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 1997, through October 23, 1998.

CLAY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
November 19, 1998
(Continued)

NOTE 4: INTEREST INCOME

The Clay County Sheriff earned \$3,607 as interest income on 1997 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

NOTE 5: UNREFUNDABLE DUPLICATE PAYMENTS AND UNEXPLAINED RECEIPTS
SHOULD BE ESCROWED

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1997 taxes, the Sheriff had \$899 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

CLAY COUNTY
EDD JORDAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

As of November 19, 1998

STATE LAWS AND REGULATIONS:

CURRENT YEAR:

The Sheriff Should Require Depository Institutions To Pledge Additional Securities Of \$329,095 As Collateral To Protect Deposits.

The Sheriff's deposits were not adequately secured by \$329,095 as of February 10, 1998. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities as collateral for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. I recommend that the Sheriff require depository institutions to pledge sufficient securities as collateral to protect deposits at all times.

Management's Response:

Have obtained additional pledge of securities.

PRIOR YEAR:

The Sheriff Should Have a Written Agreement To Protect Deposits.

Management's Response:

This has been corrected.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable James Garrison, County Judge/Executive
Honorable Edd Jordan, Sheriff
Members of the Clay County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

I have audited the Clay County Sheriff's Settlement-1997 Tax Collection, 1997 Unmined Coal Taxes, and 1989, 1990, 1991, 1992, and 1993 Omitted Unmined Coal Taxes as of November 19, 1998, and have issued my report thereon dated October 29, 1999. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Clay County Sheriff's Settlement-1997 Tax Collection, 1997 Unmined Coal Taxes, and 1989, 1990, 1991, 1992, and 1993 Omitted Unmined Coal Taxes are free of material misstatement, I performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Additional Securities Of \$329,095 As Collateral To Protect Deposits.
- The Sheriff Should Have A Written Agreement To Protect Deposits.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Clay County Sheriff's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
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(Continued)

opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Donna Bouvier
Certified Public Accountant

October 29, 1999